Depreciation—A Problem of National Accounting

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CSO has made painstaking efforts to improve the estimates of depreciation for the assets used in various sectors. Preparation of basically sound estimates has, however, not been possible for all sectors.

This paper seeks to estimate sectoral depreciation from 1948-49 to 1959-60 to test the plausibility of the available depreciation series.

THE basic data needed for estimating depreciation for any sector are: 1) the total value of existing capital stock in use, 2) the price series of various types of assets, and 3) the life-span of the various types of durable equipment and buildings and structures used for the process of income generation. That the data concerning these items are in deplorable condition is well known. For most of the unorganised sectors, information on existing assets has to be culled from various rural and urban surveys which were conducted in general for other purposes. For the organised sectors, systematic collection of data, except for large-scale public and private units, is not well organised. With regard to prices of durable equipment, only the quotations of wholesale prices of a few types of machinery, appliances and vehicles are available from the office of the Economic Adviser to the Government of India. For the prices of buildings and structures, one has to depend on some price indices of the principal variety of building materials.

In the unorganised sectors there are wide gaps in respect of the nature and volume of capital assets in use as well as the life-span of various assets. Even the company valuation of assets, based on an arbitrarily assigned life-span is generally quite different from the actual original value.[1]

There are no studies in India comparable with those of R W Goldsmith for USA and of Redfern, Barna, Dean, Feinstein and Revelle for UK, which estimate a series of replacement cost or depreciation of fixed assets adopting a straight-line method or a variation of the curvilinear method applying price indices and life-spans. There are, however, two available estimates of wealth[2] for two specific points of time. As the authors of these studies were interested in producing capital stock estimates, the question of depreciation did not get their primary attention. The 'perpetual inventory' method may be adopted to prepare a series of capital-stock estimates from 1949-50 to 1960-61 using these two point estimates. But this will not probably help to derive a series of replacement cost and its trend. For, to cumulate the investments over this period, one will have to depend on the available depreciation estimates,[3] the basis of which is questionable. Without further browbeating, it may be better to assess what has already been achieved in this respect. This task of assessment has been coupled with a practical exercise in the last section to test the validity of the two available series of depreciation mentioned above.

Assessment of Work Done

Pioneering efforts were made by the National Income Committee (NIC) in this field while preparing their First and Final Reports.[4] Despite their efforts to estimate depreciation, no clear indication is available about their success in getting appropriate source material for most of the unorganised sectors constituting nearly half of the fourteen national income sectors. Rather, they noted with regret that, in most of the unorganised sectors, there were wide gaps in this respect due to paucity of data.

NIC's work has been followed up by the Central Statistical Organisation (CSO) in building up the revised series of national income estimates published in the Blue Book[5] and the Brochure[6] on national product. Besides the above attempts, CSO and Tiwari, Kumar and Kumar have prepared two series of depreciation for the whole economy while estimating net capital formation. A brief account of the method followed and source material used in estimating depreciation in various sectors is presented in the next few paragraphs both for the conventional and the revised series of national income.

From the estimates of net income originating in different sectors published in the two NIC Reports, it appears that no direct estimates of depreciation were possible for sectors like agriculture, animal husbandry, forestry and logging, fishery, small-scale enterprises, other transport and other services. For almost all these sectors, they have presented a lumped figure termed as cost of cultivation which is nothing but the operational expenses of income generation in these sectors. For the remaining sectors, mostly organised, efforts were made by NIC to estimate depreciation with the help of the available data. These sectors are mining, large-scale enterprises, banking and insurance, transport and communication, other commerce and house property (real estate and ownership of dwellings in the revised series).

The method of estimation of depreciation for the above-mentioned sectors depended largely on the nature of the available source materials for the figures required. Figures available may be characterised in two types according to their source of origin. Figures culled from various rural and urban survey data thrown up by the National Sample Survey (NSS), private individuals and other official and non-official bodies may be placed in the first category. These data were used to estimate depreciation for the sectors like other commerce and house property and also some parts of the agricultural sector. The second category of data consisted mostly of ready materials prepared by the sectoral organisations. These are balance-sheet analysis for the mining sector, depreciation figures obtained from the Census of Manufacture and Sample Survey of Manufacturing Industries for factory establishments and Annual Reports of the Railway Board and Post and Telegraph Departments for the transport and communication sectors.

It appears from the publications on the revised series of national income that CSO made painstaking efforts to improve the estimates of depreciation for the assets used in the various sectors. Fruits of advanced research and extension in the coverage of statistical data met the basic need of the work they undertook. However, despite their advantages, preparation of basically sound estimates was not possible for all the sectors. Thus, for sectors like mining, large-scale manufacture, transport and communication, mostly identical data with minor adjustments have been used by CSO.

Revised Series

On the other hand, considerable improvement of the estimates could be noted in sectors like agriculture, small enterprises, electricity generation, transport by other means, other services and real estate and ownership of dwellings. Revised method of estimation adopted for these sectors may be briefly discussed here.

While revising the conventional estimates, data from budget documents and data thrown up by the All-India Rural Debt and Investment Survey 1962 have been used by CSO to estimate depreciation of the assets used in agricultural income generation. Estimates were based on straight-line method assuming life as 40 years for buildings, 10 years for bullock carts and 8 years for agricultural implements. For animal husbandry, forestry and fishery, methods of estimation adopted for the revised series are not clearly indicated by CSO except that they have used data available from the Directorate of Marketing and Inspection, budget documents and State Fisheries Departments.

For the small-scale sector, CSO for the first time estimated depreciation of the assets using ASI data for the Sample Sector. To estimate depreciation of assets used in banking and insurance and electricity generation, latest data available from these sectoral organisations have been used. For sectors like construction and other transport, data for depreciation of the assets were collected from the analysis of accounts of construction and transport enterprises and partly from NSS Reports.

Two sets of data have been used by CSO to estimate depreciation for other services. To estimate depreciation of the assets used in service income generation except in sanitary services, basic data used were obtained from Income-Tax Revenue Statistics on Joint Stock Companies. For services like sanitation, job dyeing, dry-cleaning and film production, depreciation estimates of the assets were based on data collected from the Reports on the Sample Sector of the ASI. For real estate and ownership of dwellings, estimates of depreciation were based on straight-line method, both for urban and rural houses. Assumed life of structures has been 60 years for urban and 40 years for rural houses.

An attempt has been made in the present study to estimate depreciation with sectoral breakdowns from 1948-49 to 1959-60 by way of testing the plausibility of the depreciation series available. The method followed in estimating these series of depreciation for various sectors is briefly explained below.

In estimating depreciation in any given period, various direct and indirect methods may be followed depending upon the availability of data. One of these indirect methods, though crude, is the application of the ratio of net and gross products. In estimating depreciation figures from 1948-49 to 1959-60, this indirect method has been followed by the present author. The estimate of the revised series of gross and net national products published by CSO in October 1967[1] has been used for the purpose.

Arbitrary Procedure

The newly adopted sectoral breakdowns in the revised series of national product have been reshuffled and lumped according to the sectoral breakdowns of the conventional series to achieve comparability of the two series. The introduction of some degree of arbitrariness is unavoidable in reorganising the revised series according to the sectoral distribution of the conventional series. The lumping together of the contribution of national product from construction activities with contribution from small-scale industries which have been shown separately in the revised series, may be cited as an instance of this arbitrary procedure. For, in the revised series while separating the net contribution from construction, a departure has been made from the conventional series and a host of other activities allied to construction have been included. However, as an index number has been used to get the figures of actual depreciation, the estimation of the overall trend in the growth of replacement cost of the small-scale sector is not likely to differ much in the two series.

In the large-scale manufacturing sector, separate contributions from electricity, gas and water-supply to national product in the revised series have been lumped with the contributions from the factory establishment sector to obtain comparability of the revised and the conventional series of national income in this sector. Further, contributions from the sectors 'trade, storage, hotels and restaurants' and 'other transport' in the revised series of national product have been lumped together to make them comparable with the 'other commerce and transport' sector in the conventional series.

After reorganising the sectors of national income in the revised series, the ratio of net and gross product in each of these reorganised sectors in the revised series has been applied to the net product of the corresponding sector in the conventional series to estimate gross product in that particular sector from 1948-49 to 1960-61. The difference between the gross and net products has been regarded as the provisional figure of depreciation in each year in each sector. The next step in the procedure has been to calculate a series of index numbers of the newly calculated depreciation in each of the sectors from 1960-61 to 1948-49, with the year 1960-61 as the base. Lastly, the actual figures of depreciation in each of the sectors in the revised series for 1960-61 have been extended back upto 1948-49 with the help of the above-mentioned index numbers of depreciation for the corresponding sectors in the conventional series. In Table 1, the estimated depreciation figures have been presented along with the other three series of depreciation, namely, the revised series (from 1960-61 to 1966-67) and the two other series estimated by CSO and by Tiwari, Kumar and Kumar.

Methodological Discrepancies

A few words may be added here to record observations on the four series of depreciation and also to note the plausibility of the newly constructed series. The methodological discrepancies may be overlooked in any estimational procedure if the resulting figures agree more or less with the other sets of corresponding aggregates. One of the ways to test this plausibility is to check the figures against total capital stock existing in each sector

TABLE 1: ESTIMATED DEPRECIATION: 1948-49 TO 1966-67

(Rupees crores at current prices)

	Sectors (1)	1948–49 (2)	49–50 (3)	50–51 (4)	51–52 (5)	52–53 (6)	53–54 (7)	54–55 (8)	55–56 (9)	56–57 (10)	57–58 (11)	58–59 (12)	59–60 (13)	60–61 (14)	61–62 (15)	62–63 (16)	63–64 (17)	64–65 (18)	65–66 (19)	66–67 (20)
1	Agriculture, animal husbandry and ancillary activities	114	120	130	134	125	142	116	120	147	140	166	166	182	196	208	218	241	260	255
2	Forestry and logging	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	3
3	Fishery	2	2	2	2	2	3	3	3	3	3	3	3	5	5	5	6	7	8	9
	Sub-total	118	124	134	138	132	147	121	125	152	145	171	171	189	203	215	226	250	271	267
4	Mining and quarrying	4	4	4	5	5	6	5	6	7	8	8	8	9	9	13	17	18	20	20
5	Factory establishments	63	63	64	73	73	79	83	86	97	104	107	117	136	164	230	252	281	308	341
6	Small-scale and construction	28	29	30	31	31	33	31	31	33	33	34	35	37	44	50	58	69	75	80
	Sub-total	95	96	98	109	109	118	119	123	137	145	149	160	182	217	293	327	368	403	441
7	Communication	1	1	1	1	1	1	1	2	2	2	2	2	2	2	1	2	7	5	8
8	Railways	23	25	25	29	28	28	30	34	39	45	46	46	50	47	59	57	59	64	80
9	Organised banking and insurance	1	1	1	1	1	1	1	1	2	2	2	2	3	3	4	4	5	5	6
10	Other commerce and transport	57	58	58	61	61	62	61	62	64	66	68	71	93	104	115	124	143	159	183
	Sub-total	82	85	85	92	91	92	93	99	107	115	118	119	148	156	179	187	214	233	277
11	Other services	10	10	10	11	11	12	12	12	13	14	14	15	16	16	18	19	22	24	27
12	House property	142	153	156	156	164	168	172	176	183	187	191	199	202	218	225	232	246	268	292
	Sub-total	152	163	166	167	175	180	184	188	196	202	205	214	218	234	243	251	268	292	319
	Grand Total	447	468	483	506	507	537	517	535	592	607	643	664	737	810	930	991	1100	1199	1304
Depreciation series	TKK	611	626	642	658	676	694	713	735	731	779	830	871	912	—	—	—	—	—	—
" "	CSO	—	—	303	344	366	402	419	483	513	602	687	723	796	869	—	—	—	—	—
Index of depreciation: 1960-61 = 100	New series	61	64	66	69	69	73	70	73	80	82	87	90	100	110	126	134	149	163	177
	CSO "	67	69	70	72	74	76	78	81	80	85	91	96	100	—	—	—	—	—	—
	TKK "	—	—	38	43	46	51	53	61	64	76	86	91	100	109	—	—	—	—	—
Depreciation as percentage of capital formation	CSO series	56.6	56.5	57.2	45.4	60.4	47.7	47.8	47.7	30.5	38.1	33.1	34.4	31.8	—	—	—	—	—	—
	TKK "	—	—	38.6	30.4	39.0	32.3	32.5	32.7	25.2	33.7	38.8	34.5	31.5	31.4	—	—	—	—	—
	Author's* "	—	—	61.5	44.8	54.1	43.1	40.1	36.2	29.1	33.9	31.6	31.7	29.2	32.1	—	—	—	—	—

* These percentages have been estimated with the help of the series of capital formation by TKK.

TABLE 2: DEPRECIATION AS PERCENTAGE OF CAPITAL STOCK: 1949-50 AND 1960-61
(Rupees crores at current prices)

Sectoral Divisions	1949-50			1960-61		
	Capital Stock	Depreciation	Depreciation as Per Cent of Capital Stock	Capital Stock	Depreciation	Depreciation as Per Cent of Capital Stock
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1 Agriculture, animal husbandry and ancillary activities	5224	120	2.2	8743	182	2.1
2 Forestry and fishery	12	4	3.3	40	7	1.8
Total of agriculture	5236	124	2.4	8783	189	2.2
3 Mining	110	4	3.6	183	9	4.9
4 Factory establishments	1706	63	3.7	5459	136	2.5
Total large-scale enterprises	1816	67	3.7	5642	145	2.6
5 Small-scale enterprises	763	29	3.8	1200	37	3.1
6 Communication	93	1	1.1	198	2	1.0
7 Railways	1574	25	1.6	2746	50	1.8
8 Other commerce and transport and other services	2424	68	2.8	4534	109	2.4
9 Banking and insurance	68	1	1.5	138	3	2.2
10 House property	4511	153	3.4	7384	202	2.7
Grand Total	17086	468	2.7	32164	737	2.3
Depreciation by CSO as per cent of total capital stock	17086	626	3.7	32164	912	2.8
Depreciation by TKK as per cent of total capital stock	—	—	—	32164	796	2.5

over a particular period. This calculation has been presented in Table 2. In presenting this Table, available capital stock estimates by Mukherjee and Sastry and by RBI for 1949-50 and 1960-61, respectively, have been used. For the sake of comparability with the sectoral breakdowns of the series of depreciations, the available capital stock figures for 1949-50 and 1960-61 have been reshuffled.

PROCEDURE OF REORGANISATION

The procedure of reorganisation of the sectoral distributions of capital stock according to the sectoral distribution of the new series of depreciations may be briefly explained here. For the agricultural sector, only two breakdowns have been made, namely, i) agriculture, animal husbandry and allied activities and ii) forestry and fishery. In the first group, all the capital stock existing under items such as a) agricultural implements including tractors, b) livestock used in farms, c) sheds, barns, etc, d) improvement of land, irrigation works, both public and private, and plantations, other than tea plantations, have been included. The second group consists only of the capital stock used in forestry and fishery sectors.

In the large-scale sector also, only two group breakdowns have been made to make them comparable with the estimated depreciation series. The first group consists of the capital stock existing in mining activities. The second group includes the capital stock used in the factory establishments, both public and private, along with the assets used in electricity generation and transmission and also in tea plantations. The other group breakdowns in the capital stock estimates have been lumped in the following manner. Except the capital stock used in railway and communications which are placed as two independent groups, all the other capital stock used in transport activities and wholesale and retail trade and also other services has been lumped together to achieve comparability with the depreciation series. The next group consists of the capital stock used in banking, co-operatives and insurance companies. The last group includes assets accumulated in house property, both public and private.

The capital stock figures for 1960-61 available from RBI sources can be easily regrouped according to the above-mentioned breakdowns of capital stock estimates by Mukherjee and Sastry for the year 1949-50, except only the capital existing in the house property sector. In fact, a comparable table of capital stock figures for 1949-50 and 1960-61 is available from RBI estimates published in their *Bulletin* of January 1963. In this table, they have added a new group, namely, 'capital outlay in government administration', in which they have included the capital stock existing in 'roads and bridges', 'public and semi-public capital in ports, docks, lighthouses, etc', and 'public and semi-public capital in aerodrome equipments' and 'public house property'. As there was no similar group in the depreciation series, capital stock of public house property was included in the house property sector, leaving all the other items of the above-mentioned group to be lumped with 'other commerce and transport and services'. As no separate estimate of capital stock in public house property was available for 1960-61 from RBI estimates, the ratio of capital stock in public house property to the total Government capital outlay on administration for 1949-50 has been applied to the total Government capital outlay for the same purpose for 1960-61. The figure of capital stock in public house property derived by the above procedure amounts to Rs 271 crores in 1960-61 as against Rs 106 crores in 1949-50.

RESULTS

Interesting results emerged from the calculations in the Table. It may be noted from the percentages of depreciation to capital stock that the length of life of assets used in sectors like agriculture, large-scale manufacture, small scale enterprises, communications, other commerce and transport and services and also in house property have increased appreciably in 1960-61 over 1949-50. This increase in the life-span of assets in most of the sectors is matched by an overall increase in the average life of the total accumulated balance of assets in the economy. This increase is quite natural for a developing economy where the entire production and distribution processes are fast shifting to mechanical devices. It also probably testified to the fact that the series of depreciation estimated here is theoretically sound.

Increase in life-span of assets in agriculture, as is observed from the Table, is mainly due to greater mechanisation in forestry and fishing activities. Development of mechanical fishing and fish-

curing and food industries is most probably responsible for this growth though a small part of it may be attributed to forestry and allied business. On the other hand, in agriculture and animal husbandry also, the increase in asset-life, though not remarkable, is not much less significant. Development of quite a number of Government dairies with allied business in animal husbandry products as well as the introduction of mechanical methods of farming in agriculture has contributed to this change in the capital structure.

Interesting Points

The Table brings out some interesting points which are apparently confusing. One of these is the decrease in the life-span of assets used in some sectors like mining, railways, and banking and insurance. The decrease in the life-span of assets in the case of mining may be explained in several ways. In calculating the revised series, CSO adopted the same method as the NIC did, namely, that it used the data on company balance-sheet analysis done by RBI in 1947 for the then Taxation Inquiry Commission. And it is interesting to note that the new depreciation figure of Rs 4 crores in 1949-50 is exactly the same figure as was given by NIC in 1949 and 1950 in their Final Report on the basis of 4.7 per cent of the value of output. If it is taken for granted that the existing capital stock estimates are dependable, the dimension and growth of the amount of depreciation must be scrutinised to find a suitable explanation for the percentage increase in depreciation.

It is realised from a few studies made by B Dey on some aspects of mining industries that one of the characteristic features of the growth of mining in India is the gradual change over from labour-based production to machine-based or capital-intensive production requiring a heavy amount of recurring expenses for maintenance and repair, which is also included in the amount shown as depreciation. On the other hand, the depreciation provision or replacement cost has not increased much. Another point to be noted is that the change over to automatic devices of production has naturally transformed the age-structure of the total capital assets accumulating in the hands of the mining companies. Probably, this change in the age-structure of the assets has not been properly reported when issuing balance-sheets. It follows that the actual book values of assets and their life-span are probably different from balance-sheet records.

The slight decrease in the life-span of railway capital may be discussed next. Railway assets have expanded rapidly during the past decade and a half. This is apparently indicated by the 74.46 per cent growth of capital stock in this sector in 1960-61 over 1949-50. In spite of this substantial growth, the depreciation figure of Rs 50 crores is clearly an underestimate. This figure was obtained by CSO from the Reports of the Railway Board while estimating the revised series.

The unsual decrease in the life-span of assets acquired in banking activities cannot be explained easily. It may only be guessed that probably the rate of depreciation shown in the revised series of national product is too high in 1960-61. For, the growth in assets in this sector consists in the greater increase in building construction for which depreciation charges are generally lower due to long life-span of most of the assets. In view of this fact, it may be indicated that most probably the depreciation rate in this sector has either remined static or has not increased so much as is shown in the revised series. The increase in the life-span of assets created in communications, other commerce and transport and services as well as house property could be explained by general development trends.

A few more observations may be added on the other two series of overall depreciations presented here, namely, the CSO series and the Tiwari, Kumar and Kumar (TKK) series. It may be noted from the depreciation rates calculated with the help of CSO figures in 1949-50 and 1960-61 that the assumed life-span of assets was too low to be true. On the other hand, it may be pointed out that, most probably, these depreciation rates were not calculated with an eye to the actual nature and composition of capital stock existing in the economy.

Observations on the depreciation figures by TKK are just the opposite of those on CSO figures. They do not present depreciation figures for the year 1949-50, the base year for the calculation of the growth rate. However, while calculating the percentage of depreciation to capital stock in 1960-61 with the help of their depreciation figures, one gets an average life of 40 years for capital stock in the economy. This is quite low in comparison with their actual figure of Rs 303 crores of depreciation in 1950-51 which may give at the most, a minimum life of 63 years. This means that the growth of their depreciation is too fast to be matched by the rate of growth of capital stock in the country.

The present study is concluded here with some tentative observations. The depreciation series presented here apparently fits in fairly well with aggregate national income, capital formation and capital stock estimates. But the problem factor in this field remains unresolved. This problem relates to the non-availability of direct statistical data on the actual condition of assets used in generation and distribution of income in most sectors. It is evident from studies in developed countries that there is no single solution to this problem. Collective efforts of various types may be launched with proper marshalling of machinery for the collection of data. Data collected by survey method may largely solve the problem of paucity of data on assets used in the unorganised sectors like agriculture, animal husbandry, forestry, fishery, small enterprises, construction and services, etc. For the organised sectors, on the other hand, data available through company balance-sheets may be used along with those from Annual Survey of Industries. These data on assets for the organised sectors may be properly adjusted before use by assessing their life-span with the help of income-tax and fire insurance data on assets in possession of various enterprises. Lastly, the extension of the index numbers of prices is essential so as to include the prices of the assets used in most of the unorganised sectors down to the wooden plough. When agriculture is the mainstay of our economy, why should it be most neglected in respect of collection and organisation of data?

Notes

1 It has been pointed out in the Report of the Income-Tax Inquiry Commission that in many industries depreciation allowed for income-tax purposes is substantially higher than what is actually provided for by the companies. (Report of the Taxation Inquiry Commission, 1953-54, Vol I, p 128, para 58, Ministry of Finance, Department of Economic Affairs, Government of India, New Delhi, 1955).

2 a) Mukherjee and N S R Sastry: 'An Estimate of Tangible Wealth of India', in "Income and Wealth

Series VIII", pp 365-387, International Association for Research in Income and Wealth, Bowes and Bowes, London, 1959.

b) Reserve Bank of India, Department of Statistics: "Estimates of Tangible Wealth of India", RBI *Bulletin*, January 1963, Vol XVII, No 1, pp 8-19.

3 a) Estimates of gross capital formation in India for 1948-49 to 1960-61, issued by the Central Statistical Organisation, Department of Statistics, Cabinet Secretariat, Government of India, New Delhi, 1961 (mimeographed).

b) Estimates of capital formation in India for 1950-51 to 1961-62 by S G Tiwari, B Kumar and J Kumar, 4th ICRNI, Bhopal, 1963 (mimeographed).

4 a) First Report of the National Income Committee issued in 1951 by the Ministry of Finance, Department of Economic Affairs, Government of India, New Delhi.

b) Final Report of the National Income Committee issued by the above Ministry in 1954.

5 National Income Statistics, Proposals for the revised series of National Income Estimates for 1955-56 to 1959-60, issued by the Central Statistical Organisation, Department of Statistics, Government of India, New Delhi.

6 Brochure on Revised Series of National Product for 1960-61 to 1964-65, issued by the Central Statistical Organisation, Department of Statistics, Cabinet Secretariat, Government of India, August 1967.

7 "Estimates of National Product (Revised Series) 1960-61 to 1966-67", issued by the Central Statistical Organisation, Department of Statistics, Cabinet Secretariat, Government of India, October 1967.

A Permanent Finance Commission?

Jayanta Sarkar

The Centre has so far been opposed to the setting up of a permanent Finance Commission on the ground that it would only transfer increasing amounts of funds to the States without a corresponding gesture of greater responsibility from the States.

The present system, however, continues to encourage the States in their fiscal jugglery and prevents viewing of the problems of federal finance in their totality.

A permanent body by itself will not solve all problems, but it will at least help generate in the States a sense of confidence that any "injustice" done to them need not be endured for five long years.

THE demand for a permanent Finance Commission has been very much in the air. The Chief Minister of Kerala, E M S Namboodiripad, has stressed the need for having a body like this to deal with financial issues as and when they arise between New Delhi and the State capitals. West Bengal's Chief Minister, Ajoy Mukherjee, has also spoken in the same vein and has demanded more financial powers for the States. Long before the politicians came to extend their support to this view, experts had started thinking on this line. The seeds of the idea can be traced back to the reports of the Second and Third Finance Commissions. The idea took more definite shape in the report of the Fourth Commission.

The Union Finance Ministry, however, looked askance at these developments. Morarji Desai was known to hold the view that any attempt to reallocate resources between the Centre and the States was an exercise in futility for, the important question was not whether the Centre or the States should have more funds, but whether the country as a whole should have more resources. A permanent finance body, as New Delhi saw it, was just a step towards the transfer of an increasing amount of funds from the Centre to the States. Quinquennial commissions and five-yearly plans gave, in its view, an appearance of semi-permanence to the distribution of resources and the States were thereby made to realise that they had to manage somehow within the constraints imposed on them.

The Centre was, nevertheless, compelled to agree to the proposal of setting up another Finance Commission within two years of the publication of the report of the previous one. New Delhi could not ignore the political changes that the 1967 general elections had brought about. The decision to form the Fifth Finance Commission was largely a sop to the rising demand for financial reforms.

Lack of Continuity

The principle of a permanent Finance Commission and the existing situation are, however, poles apart. Every effort is made at present to shake off even the faintest suggestion of continuity between successive Commissions. Each finance body has to start its work practically *de novo*. No member of one Finance Commission sits on another, such is the convention. All the working papers are destroyed after the Commission has finalised its report. The reason is that the Commission's report in effect amounts to an award and no documents showing how it was arrived at need to be kept.

That Commissions are set up at intervals of about five years leads to a variety of irresponsible acts. The Uttar Pradesh Government, for instance, hustled its Pay Commission to conclude its work, issued a Government order on the pay body's report and sent copies of the order and of the report by a chartered plane to New Delhi, only to meet the deadline for submission of statements set by the Fourth Finance Commission. The West Bengal Government raised the dearness allowance of its staff by Rs 9 crores on March 27, 1969, to show the amount as committed expenditure for the last financial year which was to expire in another three days. Many State Governments are also known to submit one set of financial statements to the Finance Commission and another for the Planning Commission. In the former, they normally try to show an inflated figure of deficits in non-plan revenue account, the obvious intention being to reinforce their demand for a larger share of divisible taxes and grants in aid. In statements for the planning body, they quite often draw a much more elastic estimate of their resources to justify their demand for a big State plan. This year, however, things have proved to be different. The Planning Commission and the Fifth Finance Commission asked for financial statements from the States at more or less the same time and this put them in a quandary: blatant discrepancies in estimates had to be avoided.

This somewhat uncomfortable situa-